

# BUDGET MANAGEMENT AND COMPENSATION RESERVES

## Budget Change Items

### 1. COMPENSATION RESERVES [LFB Paper 271]

**Governor/Joint Finance:** Provide, in the 2015-17 general fund condition statement, total compensation reserves of \$21,385,000 in 2015-16 and \$37,233,600 in 2016-17 for the increased cost of state employee salaries and fringe benefits. Total compensation reserve amounts by fund source and fiscal year are shown in the following table:

<u>Fund Source</u>	<u>2015-16</u>	<u>2016-17</u>
General Purpose Revenue	\$10,692,500	\$18,616,800
Federal Revenue	2,993,900	5,212,700
Program Revenue	4,704,700	8,191,400
Segregated Revenue	<u>2,993,900</u>	<u>5,212,700</u>
Total	\$21,385,000	\$37,233,600

The final GPR and all funds compensation reserve amounts under AB 21/SB 21 identified above are net of the following recommendations of the Governor: (a) -\$4,183,600 GPR in 2015-16 (-\$9,194,700 all funds), and -\$8,367,000 GPR in 2016-17 (-\$18,389,000 all funds) associated with a proposal to permit state employees to opt-out of state health insurance coverage for a \$2,000 annual payment; and (b) -\$8,200,000 GPR in 2015-16 (-\$18,200,000 all funds), and -\$16,400,000 GPR in 2016-17 (-\$36,400,000 all funds) associated with unspecified changes to the state group health insurance program.

Typically, amounts within the compensation reserves are funds to pay for such items as: (a) the employer share of increased premium costs in the forthcoming fiscal biennium for state employee health insurance; (b) the costs of any general wage adjustments or negotiated pay increases; (c) increases in the employer share of contributions to the state retirement fund for employees' future state retirement benefits; and (d) pension obligations bond payments for the state's unfunded prior service liability for retirement benefits and the accumulated sick leave conversion credit program.

### 2. DOA SECRETARY AUTHORITY TO LAPSE MONEYS FROM GPR AND PR APPROPRIATIONS OF SPECIFIED AGENCIES IN 2016-17

GPR-REV	\$38,176,100
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**Governor:** Specify that a 2013 Act 145 provision that requires the Secretary of Administration to lapse \$38.2 million in 2015-16 to the general fund from the unencumbered balances of GPR and PR appropriations of a list of specified executive branch state agencies,

other than sum sufficient and FED appropriations, would also apply in 2016-17. The following table shows the proposed 2016-17 lapse amounts by agency under the bill. Specify that the amounts to be lapsed from the Department of Financial Institutions (DFI) and the Department of Safety and Professional Services (DSPS) for 2015-16 and 2016-17 would be combined as an amount to be lapsed from the proposed Department of Financial Institutions and Professional Standards (DFIPS).

The \$38,176,100 lapse amount for 2016-17 is included in the general fund condition statement as "Departmental Revenues -- Other."

<u>Agency</u>	<u>2016-17 GPR and PR Lapses Under the Bill</u>
Administration	\$13,430,900
Agriculture, Trade and Consumer Prot.	1,664,800
Child Abuse and Neglect Prevention	228,400
Children and Families	592,200
Corrections	1,864,100
District Attorneys	43,300
Educational Communications Board	85,500
Financial Institutions and Professional Standards	8,666,400
Government Accountability Board	40,200
Historical Society	11,900
Insurance Commissioner	902,700
Justice	2,040,300
Natural Resources	3,008,000
Public Defender Board	118,700
Public Instruction	1,049,300
Public Service Commission	98,700
Revenue	1,383,400
Secretary of State	51,200
State Fair Park	6,700
Tourism	10,400
Transportation	140,900
Wisconsin Technical College System	65,100
Workforce Development	<u>2,673,000</u>
Total	\$38,176,100

**Joint Finance:** Delete the provision that would combine the amounts to be lapsed from DFI and DSPS as an amount (\$8,666,400) to be lapsed from the proposed DFIPS. This would have the effect of restoring separate lapses for DFI (\$2,434,400) and DSPS (\$6,232,000) that would total to \$8,666,400.

### 3. REQUIRED GENERAL FUND STATUTORY RESERVE [LFB Paper 170]

**Governor:** Provide that the required general fund statutory balance would be \$65 million for 2017-18 and 2018-19. Specify that beginning in 2019-20, the required balance would equal 2% of total GPR appropriations plus GPR compensation reserves for each fiscal year.

Under current law, the required balance is \$65 million for 2015-16 and 2016-17 and 2% of total GPR appropriations plus GPR compensation reserves for each fiscal year beginning in 2017-18.

A comparison of current law and the statutory balance requirements under the bill is shown in the following table.

	<u>Current Law</u>	<u>Under the Bill</u>
2015-16	\$65,000,000	\$65,000,000
2016-17	65,000,000	65,000,000
2017-18	2% *	65,000,000
2018-19	2% *	65,000,000
2019-20 and thereafter	2% *	2% *

\*The required balance equals 2% of gross GPR appropriations plus GPR compensation reserves in that year. As an example, a 2% calculation for 2016-17 under the bill equals \$339 million.

**Joint Finance:** Delete the provision that would specify that beginning in 2019-20, the required balance would equal 2% of total GPR appropriations plus GPR compensation reserves for each fiscal year. Instead, specify that the statutory reserve for fiscal years 2015-16 and 2016-17 would equal \$65 million plus the accumulated amount drawn from moneys that otherwise would have been transferred to the budget stabilization fund. Beginning in 2017-18, the statutory reserve would equal the prior year reserve amount plus \$5,000,000, plus the accumulated amount drawn from moneys that otherwise would have been transferred to the budget stabilization fund in that fiscal year, but not to exceed 2%.

Under current law, if actual general fund tax collections in a fiscal year exceed the estimated amount for that year used in the budget act, then 50% of the excess is transferred to the budget stabilization fund, as long as this transfer would not reduce the general fund balance below the statutory reserve. This provision would modify current law governing transfers to the budget stabilization fund to specify that if the transfer of 50% of the excess in actual tax collections compared to the estimate would cause the general fund balance on June 30 of the fiscal year to be less than 2% of total GPR appropriations plus GPR compensation reserves for that year, then the Secretary of Administration could not make the transfer. Instead, the moneys would remain in the general fund, and the statutory reserve would be increased correspondingly. The statutory reserve would be set equal to \$65 million plus the accumulated amount of any moneys retained in the general fund under this procedure, but could not exceed 2% of total GPR appropriations plus GPR compensation reserves. In addition, beginning in 2017-18, at a minimum the statutory reserve would equal the prior year amount plus \$5 million, plus any moneys retained under this procedure, but could not exceed the 2% level. Once the general fund balance has reached this 2% amount, then transfers to the budget stabilization fund in subsequent

fiscal years would occur as under current law, and the \$5 million annual increase would not apply.

#### 4. GENERAL FUND STRUCTURAL BALANCE

**Joint Finance:** Provide that s. 20.003(4m) of the statutes, which requires that no bill may be passed by the Legislature if estimated general fund expenditures exceed estimated revenues in the second year of the biennium, would not apply to the 2015-17 budget bill.

#### 5. LIMIT ON INTERFUND CASHFLOW BORROWING [LFB Paper 171]

**Governor/Joint Finance:** Increase the limit on interfund borrowing to support the general fund's cashflow by four percentage points, from 8% of GPR appropriations in a fiscal year to 12% of GPR appropriations for that year.

Under current law, beginning in 2015-16, the Secretary of DOA is authorized to temporarily reallocate to the general fund an amount equal to 5% of total GPR appropriations in order to support the general fund's cashflow (approximately \$798 million in 2015-16 and \$847 million in 2016-17), from available balances in the state investment fund. This limit would be increased to 9% under the bill. In addition, under current law, the Secretary may permit a further 3% to be used for temporary reallocations to the general fund for a period not to exceed 30 days, which cannot be made for consecutive periods (approximately \$479 million in 2015-16 and \$508 million in 2016-17). In total, under current law, 8% of GPR appropriations (\$1,277 million in 2015-16 and \$1,355 million in 2016-17) may be allocated to the general fund on a temporary basis. Under the Governor's recommendation these aggregate limits would be \$1,915 million in 2015-16 and \$2,033 million in 2016-17. The following table compares the limits under the Governor's recommendation with current law. For funds other than the general fund, up to \$400 million can be reallocated between the general fund, certain segregated funds, and the local government investment pool. Funds that borrow money through temporary reallocations are charged interest at the earnings rate of the state investment fund. In the 2013-15 biennium, the 5% threshold described above was increased to be 9% through June 30, 2015.

**Limits on Temporary Reallocations to Support the General Fund's Cashflow  
(\$ in Millions)**

<u>Limit</u>	<u>Current Law</u>		<u>Limit</u>	<u>Governor/Jt. Finance</u>	
	<u>2015-16</u>	<u>2016-17</u>		<u>2015-16</u>	<u>2016-17</u>
5%	\$798	\$847	9%	\$1,436	\$1,525
3% (30-day limit)	<u>479</u>	<u>508</u>	3% (30-day limit)	<u>479</u>	<u>508</u>
Total	\$1,277	\$1,355	Total	\$1,915	\$2,033

#### 6. AGENCY BUDGET REQUEST SCENARIOS

**Joint Finance:** Require that state agencies making their agency biennial budget request would submit three proposals as follows: (a) a proposal written as if there would be no increase

in expenditures of GPR, PR, or SEG from the base levels for the current fiscal year; (b) a proposal written as if the only increase in expenditures of GPR, PR, or SEG from base levels would be for cost to continue programs, including standard budget adjustments and increases in costs due to case load or population adjustments, and for the amounts necessary to fund previously enacted program commitments; and (c) the proposal submitted in (b) but modified to include increases in GPR, PR, or SEG from base levels for programmatic changes.

Require the DOA Secretary when compiling the requests for agencies for the succeeding biennium under the current law report due on November 20 of each even-numbered year, to ensure that the data is presented as the three of these proposals described above.